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**DISCUSSION PAPER No. 68  
RESULTS-BASED AUDITING**

**Wm. F. RADBURN and MARIA BARRADOS  
AUGUST 1994**



## **DISCUSSION PAPER SERIES DOCUMENTS DE DISCUSSION**

The attached paper has been prepared to stimulate thought and discussion regarding our audit activities. The views expressed are those of the author and therefore should not be construed as those of the Office.

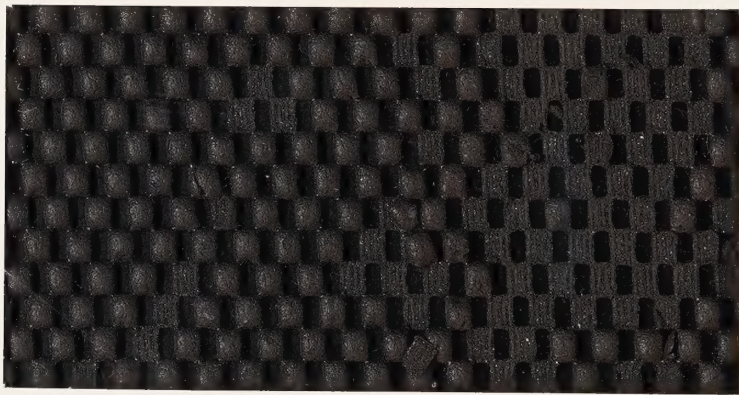
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## 1. INTRODUCTION

01. The Office is committed to improving the quality of our work to make a difference for Canadians. As part of this improvement we are shifting emphasis from systems based to a results based audit process. We are adopting this more results-based or "results-oriented" approach in our value-for-money audits of departments and agencies and in special examinations of Crown corporations.

02. For those of us serving in functional and/or advisory capacities, we have not yet seen a wide translation of the concept into practice. We are still very much at the beginning of what may be a lengthy, yet fascinating journey.

.03 The primary reason that practice has not advanced as quickly as expected appears to be the difference in interpretation of, or uncertainty about, the meaning of results-based auditing. As well, it demonstrates that such a major change in focus and approach is difficult.

.04 This paper is intended to address a number of questions raised about results-based auditing. It is clearly not intended to be definitive but, hopefully, it will prompt more discussion and debate on the subject and will encourage greater adoption of the results-based approach in our audit work. If you have any questions on this subject, the authors would welcome hearing from you.

## 2. SHIFTING THE EMPHASIS FROM SYSTEMS TO RESULTS

.05 Management renewal initiatives in the public and private sector have argued for the importance of emphasizing the results to be achieved by programs and services rather than systems and processes per se. Maintaining essential systems and controls continues to be a responsibility of management. These systems, however, should serve clear management objectives and not be ends in themselves. There has been a considerable number of references in recent Office initiatives and annual Reports to the importance of government entities focusing on results and achieving intended objectives (See Appendix 2.)

.06 As auditors we are part of the call to focus more on the objectives and results of the entities and programs we audit. We should also reflect on the processes we follow in our special examination and value-for-money work and adopt more of a results approach. For many, this will constitute a fairly substantial change in the way in which we approach value-for-money audits. This increased focus on "results" is incorporated in the "Special Examination Audit Guide" just released.

.07 This shift would not change the requirement to do compliance or authority work (however, compliance, as well as "internal controls", are subjects of separate papers). It should be understood that "due regard" and a "results approach" are compatible concepts. Establishing the results achieved, demonstrating due regard for the "three Es" fulfils an essential part of our mandate.

## 3. WHAT DOES RESULTS-BASED AUDIT APPROACH MEAN?

.08 The terminology we use is often replete with process-laden terms (see Figure 1). For example, if the subject matter we are describing deals with "how", generally we are in a



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process mode. Likewise, if we are describing what is being done, without also considering what is being achieved, we are in a process mode. The listing of terms in Figure 1 can be expanded, but it is a start to help us differentiate between the emphases or focuses of the two approaches.

FIGURE 1: DIFFERENTIATION	
Process/systems-based focusses on	Results-based focusses on
how? functions means what is being done	so what? inputs/outputs/outcomes/impacts ends/consequences what is being achieved

.09 The Glossary in the Comprehensive Auditing Manual (CAM) gives the following descriptions of the two approaches:

**Systems-based auditing.** In systems-based auditing, the nature, extent and timing of detailed audit procedures are based on the organized study and assessment of the significant systems and controls in the audited organization. This study and assessment, carried out in the initial phase of the audit, determines which systems are important to the management of the audited organization and determines the extent to which testing during the examination phase of the audit is required to assess the reliability of controls and of reports to Parliament.

The systems-based approach is designed to enable the auditor to concentrate the audit effort in areas where performance is not adequately monitored and disclosed and where controls either do not exist or are not operating properly. At the conclusion of the examination, the auditor should be in a position to point out the strengths and weaknesses of the key systems and related controls and to indicate causes and effects of the weakness and to develop conclusions and recommendations.

**Results-based auditing.** In results-based auditing, emphasis is placed on identifying the critical results or products to be achieved by a program or a process. These results may take the form of outputs produced in relation to those intended, products delivered, or immediate goals that must be achieved for the program or process to be a success. Once these critical results have been identified, the audit examines them to identify weaknesses. The audit may assess whether the products or results produced are those that are supposed to be produced according to the program mandate. Alternatively, the audit may assess whether a program or process is producing products to appropriate standards of quality and timeliness, and in an economical and efficient way. The purpose of a results-based audit is to identify weaknesses in the results of a program or process and to trace these weaknesses back to the set of procedures and activities that may be their cause.

.10 The definition of "systems-based" auditing was established at the time when the Comprehensive Auditing Manual was first developed in 1981. The definition of results-based auditing was added when the Manual was revised in December 1984.





.11 Whether a "systems based" or a "results based" approach is used, significantly changes the starting point of the audit. **A focus on results needs to be part of the early audit planning and key decision points throughout the audit process. Indeed, the audit has to have clear audit objectives.** The degree to which a results-based approach is to be adopted will usually be evidenced by the terminology used in the audit objectives.

.12 The auditor may need to spend extra time with the management of the audit entity in a results-based approach to obtain a common understanding of key results that the entity is trying to achieve. The statement of objectives is often unclear. The auditor will need to reach an agreement with management on what the objectives are and the results to be achieved. If agreement cannot be reached, the lack of clarity of objectives should be considered for reporting.

.13 Further, as a practical consideration, auditors should take care to be "reasonable" regarding expectations on results. For example, when many organizational changes are taking place, we should avoid excessively high expectations of immediate results. A reasonable time period for proper results (and measurements thereof) must be allowed. Also, auditors must ascertain whether good results were due to the use of excessive resources (trade-off between results and efficiency)? Care will have to be taken when forming judgments on "reasonableness" of results.

.14 A proper balance is needed in the application of the approach. **A commitment to results-based auditing implies a continuous questioning of "so what" in planning, scoping implementing and reporting.**

#### 4. WHAT DOES RESULTS-BASED AUDIT APPROACH NOT MEAN?

.15 Discussions surrounding the meaning and intended use of the results-based approach has resulted in some misunderstandings or myths about the use of the concept. Some of the more frequent myths are set out below.

.16 It is an "either/or" situation.

Not so! Most auditors agree that we have been overly focussed on systems, practices and processes without giving adequate attention to what they are achieving. It is not a case of either a "systems" approach or a "results" approach, but rather making sure that adequate attention is given to results.

A balance needs to be struck. An emphasis on results should not mean that auditors do not examine other relevant matters (e.g., systems and practices that do not contribute to results).

Because of the legislative wording relating to special examinations which refers to systems and practices, there will always have to be some awareness and consideration of systems and practices even with a results-based approach.

There is a big difference, however, between understanding key systems and practices as part of the planning phase and focussing the whole special examination or value-



for-money audit on key systems and practices. We are trying to de-emphasize, even discourage, the latter practice.

**.17 Special examinations, by their nature and legislative wording, are process audits.**

No. During the first cycle of special examinations, a lot of attention was placed on "systems" and "practices", terms used often in the legislation. However, the Special Examination Audit Guide explains that:

"Systems are only means to ends -- they need to be judged by their ability to fulfil those ends (i.e., results). The reference in the FAA to systems and practices and frequent reference in this audit guide to "statutory control objectives" may lead some to consider that special examinations are process-oriented audits. This is not the case, for the special examination opinion is on whether systems and practices provide reasonable assurance that results are being achieved (i.e., operations are carried out effectively, etc.)."

**.18 A greater emphasis on results means we are going to be auditing "policy".**

Not necessarily so. In fact auditors should exercise great caution if they feel they are potentially entering a political policy debate. This is particularly important for value-for-money audits examining the achievement of overall program objectives - only one part of results-based auditing as shown in Figure 2.

For special examinations, a results-based approach does not mean that there is a switch to commenting on the merits of government policies. In fact, under Part X of the FAA, we are specifically precluded from doing this.

There is a major difference between examining whether established policies are being implemented and objectives are being achieved and questioning the nature or merits of those policies/objectives. Our focus is on the former, not the latter.

**.19 Our reports will become highly statistical.**

While having more quantitative information in our reports is being encouraged and is consistent with a results-based approach, it does not necessarily mean a switch to highly statistical reporting. Any quantitative information should be relevant and supportive of the conclusion. Numbers for the sake of numbers are not helpful - and could be harmful! More quantitative information should mean more reporting on performance, comparing actual results to expected results, comparable benchmarks, etc. While much of this performance information is (or should be) produced by the entity, this does not preclude generating our own information and analyses relative to performance. **Separate guidance on quantitative methods will be forthcoming.**





## EXAMPLES OF RESULTS BASED REPORTING

FIGURE 2

<b>Results Observation Used to Conclude on:</b>			
	<b>Economy and Efficiency</b>	<b>Achievement of Intermediate Objectives</b>	<b>Achievement of Overall Objectives</b>
<b>Program Activities</b>	<ul style="list-style-type: none"> <li>• SAR (costs of "600" class vessels in rescue exceed benefits) 1992 Paragraph 8.53</li> </ul>	<ul style="list-style-type: none"> <li>• CIDA (potential for enduring benefits though self-sustain ability) 1993 Paragraphs 12.87 and 12.88</li> </ul>	<ul style="list-style-type: none"> <li>• NCARP (capacity and dependency remains high) 1993 Pgphs 15.84, 15.85, 15.86, 15.93</li> </ul>
<b>Systems and Controls</b>	<ul style="list-style-type: none"> <li>• NCARP (FMC failures lead to additional resource requirements) 1993 Paragraph 15.76</li> <li>• Seniors (deficiencies in management of overpayment) 1993 Paragraph 18.69, 18.70</li> </ul>	<ul style="list-style-type: none"> <li>• Operation of Program Evaluation (program improvements) 1993 Paragraphs 9.69, 9.72</li> <li>• Payments (Effects of management on payments in lieu) 1992 Exhibit 7.7</li> </ul>	<ul style="list-style-type: none"> <li>• Payments (payments exceeded PY reductions) 1992 Paragraph 7.32</li> </ul>

Examples selected from the 1993 and 1992 Annual Report of the Auditor General.

Prepared by S. Divorski.





**.20 We will be doing program evaluations.**

Program and policy evaluations are carried out by government to answer questions about whether objectives have been achieved, whether there is still a rationale for the program and whether there are any cost-effective alternatives. In the Canadian system we expect government to carry out these evaluations, often with encouragement or prodding on the part of the auditor. We put a considerable amount of audit effort into demonstrating the importance of evaluations and demonstrating the importance of the kind of information that an evaluation can provide, but only in exceptional circumstance would we undertake them ourselves. (Auditors should seek functional guidance in this area.)

**.21 All "results audits" require functional guidance from the Results Measurement Audit Group.**

Not so! The Group, along with the Crown Corporation Group for work in Crown corporations, is directed in part to supporting the shift of emphasis to results- based auditing by providing assistance. The Results Group also conducts results based audits. Members of the results measurement team are available for assistance and should be consulted when Principals and/or AAGs are planning their audits for efficiency and effectiveness issues as described in CAM.

**.22 A results-based approach has to cost more.**

This is not so. Devoting more time to understanding the industry where one exists, to comparative analysis, (often in other jurisdictions) to discussions with management on objectives and results are all seen as a change of emphasis - not add ons. Therefore, less time is expected on understanding and auditing systems and processes. That savings in time should allow for the increased focus on "results".

There is nothing in this paper that is in contradiction with the Office's concern about audit efficiency. It is the view of the authors that a results-based audit will not only be more relevant but may be carried out at a lower cost. We are confident that auditors will support this challenge and adopt the results based approach at the same, or lower, cost than a systems based approach.

**5. THE CHANGE IN SPECIAL EXAMINATIONS**

**(a) Reasons for change**

**.23** The Special Examination Audit Guide cites the following reasons for adopting a results orientation.

- Focussing on the results that the corporation is expected to achieve will point the examiner to deficiencies that directly affect results.
- The results orientation is likely (but not necessarily) less costly, since only those systems and practices essential to achieving results are examined in depth.



- The results approach increases our credibility with the board and senior management because it focusses on matters that have a direct impact on the corporation's success.
- It is easier to appreciate the significance of audit results if we relate them to the achievement of desired results and, by extension, on the statutory control objectives.

.24 Further, the rate of change in Crown corporations is very rapid. Board members and senior executives change; operations change; and circumstances change (e.g., technological advancements). While corporate mandates and objectives are also subject to change over time, they tend to be more durable.

.25 That is, to focus primarily on systems and practices is to direct the special examination on the very things most likely to be in a state of change - most of these things are simply "means" to an end.

.26 By focussing our audit efforts on results achieved in relation to objectives we avoid getting caught up in the current means management is using to meet its objectives, and look at whether results are actually being realized.

.27 Another reason for emphasizing results is to encourage greater knowledge of the industry in which the corporation operates. Understandably, during the first cycle most of our work was centred on what the corporation was doing (i.e., an internal focus). During the current cycle, more attention is given to comparing what the corporation is achieving in relation to others, resulting in a much improved basis for commenting on productivity issues by benchmarking, for example.

.28 During the first cycle of special examinations, while we gained good knowledge of the systems and practices in place, we often did not link systems and practices and the achievement of corporate objectives well enough.

.29 Figure 3 illustrates the relationship between results and systems and practices.





FIGURE 3: RESULTS/SYSTEMS &amp; PRACTICES RELATIONSHIP

		RESULTS	
		NOT ACHIEVED	ACHIEVED
SYSTEMS AND PRACTICES	ADEQUATE	1. Misleading indicators 2. External constraints 3. Effect of new S&Ps not yet realized 4. Systems okay, practices deficient 5. Systems being ignored or bypassed <b>A</b>	1. Lack of significant S&P deficiencies 2. Systems and practices work <b>B</b>
	INADEQUATE	1. Deficiencies likely more readily apparent 2. Likely a cause/effect relationship <b>C</b>	1. Misleading indicators 2. Results likely a product of timing 3. Potential risks not adequately managed 4. Redundant or inefficient systems or practices 5. Good luck <b>D</b>

.30 Following are a number of possible scenarios that show the relationship between results achieved (resources managed efficiently and economically, etc.) and the systems and practices employed.

- Results are being achieved and systems and practices are sound (Case B).
- Results are being achieved but systems and practices are not sound (Case D)
- Results are not being achieved and systems and practices are not sound (Case C).
- Results are not being achieved but systems and practices "appear" to be sound (Case A).





.31 Figure 3 illustrates that examining systems and practices may not allow us to predict or conclude on results and vice versa. It also supports a more balanced approach.

(b) **What changes?**

.32 By adopting more of a results-based approach to special examinations, does not mean carrying out the special examination in the same way as before, but keeping results "in mind".

.33 It really means adopting a whole new approach. This can be demonstrated by stating the two extreme starting points:

Systems-based approach - What are your systems and practices?

Results-based approach - What are your objectives and are they being met?

**.34 You can readily see, that the overriding question(s) you start with (i.e., audit objectives) will drive the whole special examination. This point is illustrated in Figure 4.** As stated earlier, it is not a matter of choosing one or the other; it is a matter of altering your starting point and achieving an appropriate balance.

.35 A results-oriented special examination begins with a clear understanding of the desired corporate results and asks what the corporation must do to meet standards of corporate achievement in an economical and efficient manner.

.36 In cases where the entity's objectives are unclear, auditors should identify the areas where greater clarity is required and consider the impact and effect of such lack of clarity on corporate results. Where operations and/or results are impacted in a significant manner, consideration should be given to reporting this as a significant deficiency.

.37 In a special examination of a Crown corporation, it is impractical to examine each of the myriad systems and practices. Many of the organizations examined are large and complex. The examiner gives an opinion on the organization as a whole without looking at each and every aspect of the organization.

.38 The examiner must maintain a broad perspective of the organization and of the results it is expected to achieve, while focussing on only those areas that are critical to the corporation's overall success in meeting its own and FAA objectives. The plan for the examination must keep in sight the corporation's objectives, assess the risks against the achievement of those objectives and focus on systems and practices that manage the most important risks. The criteria for those key systems and practices would include assessment of the risks that need to be managed in the systems and practices.



FIGURE 4

	PLANNING			EXAMINATION	REPORTING
	Understanding the Business	Risk Assessment	Criteria		
SYSTEMS-BASED	What are the systems and practices?	What are the <u>major</u> systems and practices? Is there a risk that key systems and practices will fail?	What should systems look like or how should they be composed?	Are all the components of systems and practices in place and working?	Are there important deficiencies in systems and practices that can infer a negative result? Do we know the underlying reasons for the system deficiencies?
RESULTS-BASED	What are the corporation's objectives? Are objectives being met? What other entities are carrying out similar activities? (benchmarking?)	What are key threats to meeting stated objectives? What are reasonable indicators of results being (or not being) achieved? Is management taking appropriate steps to deal with such threats/risks?	What are the expected outputs/outcomes of the systems and practices?	Are objectives being met, are operations efficient, are risks being managed/minimized through the systems and practices established? Are the systems and practices sufficient to produce the results?	Are there deficiencies in results and do we know the reasons? How do these results compare over time and with other similar entities or parts thereof?

## 6. THE CHANGE IN VALUE-FOR-MONEY AUDITS

.39 A results focus in value-for-money auditing is built into the audit and seen in the planning, the examination and the presentation of findings of the consequences or results of management activities. Management activities include responsibility for **programs** and **systems and controls**. These activities have different purposes and hence different types of results - for example, a service provided by a program at a reasonable price or a correct payment being made by a financial system.

.40 A results based approach can be applied to the audit of program activities and systems and controls. It relies on demonstrating analytically, empirically where appropriate, the important aspects of the results. These observations can be used in different ways to draw audit conclusions.

.41 The audit observations from results focused audit tests of program activities or systems and controls can be presented as observations.

1. the economy or efficiency of an activity as measured against audit criteria;





2. the achievement of an intermediate objective (necessary to the achievement of the overall program or systems and controls objective). Audit conclusions are drawn by comparing the observation with the intermediate objective. The achievement of the intermediate objective may be stated as an audit criteria.
3. on the achievement of the overall objective. Audit conclusions are drawn by comparing the observation with the overall objective. The achievement of the overall objective may be stated as an audit criteria.

.42 Auditors are familiar with analytic approaches that establish causal linkages between observations in order to draw conclusions and make recommendations. The analytic approach required in results-based auditing is distinguished by analytically demonstrating through audit testing and measurement where appropriate, the nature, extent and strength of the results.

(a) **Examples**

.43 Few of the chapters in the 1992 and 1993 annual reports used a results-based approach extensively, but a number included some examples of its use and reporting. The presence of these examples demonstrates a readiness on the part of many of our auditors to make the shift to results-based auditing. Consistent with current practice, the examples focussed more on the results of management controls than on program results and were usually presented as observations against criteria.

.44 Some illustrative examples of the use and reporting of results from the 1992 and 1993 annual reports are presented in Figure 2. The Figure illustrates the application of results of program activities and systems and controls and how the results observations were used in the audit. Appendix 3 provides further details from the chapters referred to in the Figure 2.

(b) **Reasons for change**

.45 Many of the reasons for changing to a results-based approach in value-for-money audits, particularly in the examination of systems and controls, are the same as those for special examinations. These include:

- focussing audit effort on areas that directly affect key results of the organization being audited;
- providing a basis for auditing only those systems and practices essential to achieving key results;
- focussing audit effort on areas of importance to management;
- providing a clearer basis for assessing significance of audit findings; and
- Committees of Parliament seem to prefer discussing results rather than just systems.

.46 Value-for-money audits carried out under Section 7 of the Auditor General Act can have different audit objectives. For example, the objective may be to examine systems and



controls or it may be to examine program activities. It is up to the managers of an audit to determine what the objectives will be. **The objectives of the audit will determine how the results approach is used in the audit process.**

.47 A results-based approach focussing on program activities has the additional advantage of demonstrating and potentially questioning the results that government programs have achieved and the difference they have made. This approach supports government and management concerns about challenging the value of government programs as governments strive to reduce budget deficits; to manage programs on results achieved rather than on process, and to provide improved accountability reporting on achievements.

.48 By using a results-based approach (for systems, controls and program activities) our reports will communicate more clearly our observations and their importance for the organization being audited in terms of results. Results-based observations specify the importance of the observations within its own context. For example, an observation and conclusion will not be made simply because a "good management practice" has not been followed (which is based on a systems based approach of what good management practice is) but rather because questionable results have been achieved.

.49 Auditors have always pursued the "so what" question. Rather than relying on a theoretical argument to demonstrate importance based on their judgment, they will rely more on a demonstration of results achieved. In this way they will show their willingness to test their own judgment, be more transparent in how they draw conclusions and more clearly make the case for areas that need increased attention. The effectiveness of value-for-money audits will, as a result, be enhanced.

(c) **What changes?**

.50 The changes in the practice of value-for- money auditing are as profound as the changes in special examinations.

.51 Where a value for money audit has as its objective the examination of systems and controls, the approach developed in the special examination applies. The only major difference is in the nature of the report. Special examinations, as required by legislation, present an overall "short-form" audit opinion with exception reporting on the deficiencies. Value-for-money audits provide a lengthier report that presents the details of the main observations and conclusions.

.52 The audit process requires auditors to make many judgments on objectives, scope, plans, tests, conclusions and the content of the report. **A results-based approach more than ever demands auditors to question at each point how they will be able to test and demonstrate the "so what" (or the results) in their approach.** The greatest challenge will be in the design and implementation of audit tests. **These may involve new methodologies that may not be familiar to auditors. Methodology is being developed to assist auditors, and functional expertise is available in the Office.**





## 7. CONCLUSION

.53 One of the lessons learned from the first cycle of special examinations is that a systems-based approach to special examinations, is a lengthy and costly endeavour which, generally, may not lead the audit to deal with the achievement of corporate results. A results-based approach should lead the auditor to know whether the results meet a criterion and to understand the most important reason for the observed performance.

.54 Many of the significant deficiencies reported five years ago consisted of weaknesses in systems. This was likely the result of an excessive focus on "operational elements" listed in Appendix 1 without linkages back to mandate and objectives or forward to results. Implicit was the assumption that if the systems were to be fixed, the results would improve (be better).

.55 In a number of the special examinations completed in this current cycle, there are fewer of these kinds of deficiencies being reported to the Board. Matters reported are more directly related to the very nature of the business the corporation is in. Teams are starting to look outside the corporation and are considering the productivity and results of the corporation in relation to other similar entities or parts thereof. Indications are that we are starting to turn the corner on adopting a results-based approach to special examinations.

.56 It is encouraging to see that some auditors carrying out value-for-money audits in departments and agencies are using results-based techniques. In many instances, however, the opportunity to test for and demonstrate results is not used. We thereby lose the opportunity to make a clearer and more convincing case of how our observations and conclusions could make a significant difference. As greater pressure is placed on our audit resources, we will have to assure ourselves that we maximize the ability to make a difference through our audit investment.

.57 By increasing our effort to test and demonstrate the results of systems, controls and programs, we are asking our auditors to work with techniques and approaches that they may not be experienced with. This presents an enormous challenge and opportunity to those auditors who have used the techniques to share their experiences and to provide a helping hand to other auditors trying to use them for the first time.

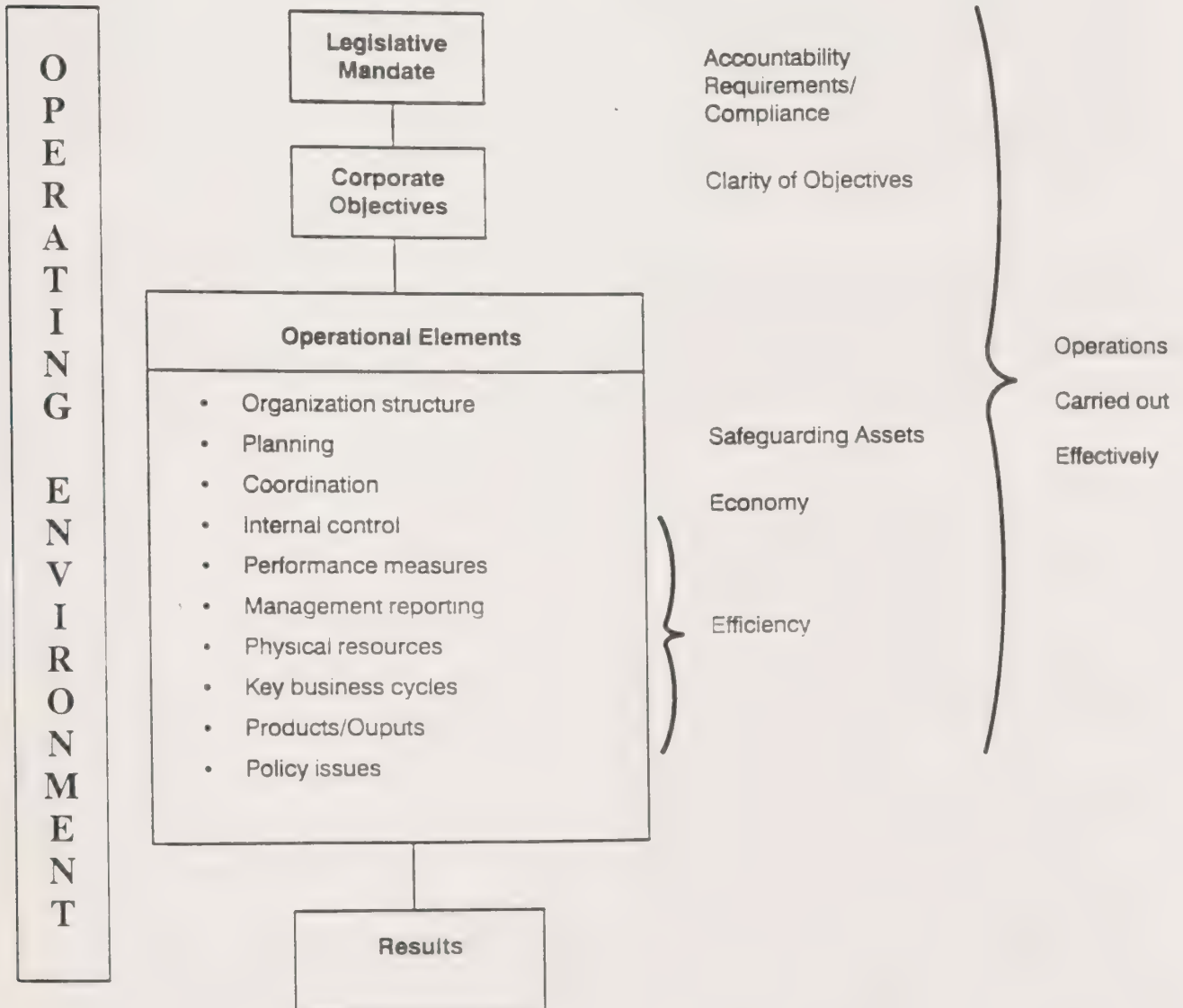
.58 We hope this article will encourage the shift, recognizing full well that more questions will arise and will need to be dealt with.



# UNDERSTANDING THE BUSINESS

## SUBJECT AREAS

## GENERAL FOCUS







## 2. WHAT HAVE WE SAID?

### (a) Special Examinations

In Chapter 6 of the 1990 *Report*, "*The Audit Regime for Crown Corporations*", we outlined in a general way the results of our assessment of the first cycle of special examinations.

A common area of weakness identified in the first special examinations related to unclear objectives and inadequate measurement of and reporting on performance. This matter was carried forward to Chapter 1 where it was stated that, "Information on how well Crown corporations are meeting their objectives is still largely inadequate".

We stated that we had learned from our experience and, to ensure greater productivity and effectiveness in future examinations, we had initiated a number of projects (including, an examination of the methods used to select systems and practices for in-depth review, an assessment of the criteria used, etc.).

A special examination three-day workshop was held in June 1991 at Rockland with the theme, "Building on Experience". As part of the session on "Understanding the Entity", it was stressed that more emphasis was necessary on "understanding corporate results". The "corporate logic model" was suggested as a tool to assist in ensuring a focus and understanding of mandate, objectives, inputs, activities, outputs and results (and linkages among them) -- see Appendix 1, "Understanding the Business" -- an updated version of the previous corporate logic model.

As the "Accountability Issues" team continued with the review of the first cycle, it became clear that there was an excessive focus on "systems and practices" without adequate attention to (1) the purposes for these systems and practices, (2) whether the purposes were being achieved and (3) the impact of these systems and practices on achieving the objectives of safeguarding assets, economic and efficient management of resources and effectiveness of operations. This preoccupation with systems and process was evident throughout the process (i.e., understanding the entity, selecting key systems and practices for in-depth review; the wording of criteria; the nature and wording of identified significant deficiencies).

We concluded that inadequate attention was being given to understanding (1) whether or not corporate objectives were being met and (2) the linkage of corporate systems and practices to the "control objectives" set out in the FAA and corporate results.

There was Office acceptance that more of a "results" focus was needed. This issue became the subject of one of the series of "special examination mini workshops" held in January-February 1993. Many good suggestions arose, which have found their way into the *Special Examination Audit Guide*. At the 1993 seminar on "Planning special examinations, the results-based approach" was explored further, with more ideas being incorporated into the Audit Guide.



In Chapter 4 of the 1991 *Report*, we pointed out "Reporting Performance" as one of four areas of concern. We concluded:

If objectives are not clearly stated and the extent to which they are met is not known or reported, full accountability of Crown corporations cannot be achieved.

(b) **Value-for-money audits in Departments and Agencies**

One of the earlier references to the need to focus on results, was in Chapter 1 of the 1991 *Report* where Denis Desautels set out some of his first impressions of Ottawa.

**Par. 1.7**

Another impression has to do with the administration of public affairs, the need to focus on results instead of on process. There are cumbersome internal rules in government, an emphasis on procedures, a complex budgeting process, and so on. To a newcomer, it seems evident that successive governments, concerned about probity and prudence, economy and efficiency, have placed pervasive systematic reliance on central controls. Why?

One explanation is that it is hard to manage by results when few meaningful ways to measure them have been put into use. Reporting of results-outputs (efficiency) and the outcomes (effectiveness) of program activities - would appear to be a precondition for moving from a regime of central control. This is especially true in Ottawa. For no where in Canada is there so much talk about accountability which nevertheless still remains such an elusive goal.

Further, in commenting on the deficit, one of the questions raised was: "Has there been too much emphasis on process and not enough on results?" In introducing the idea of a deficit-related "score card", he stated, "It makes sense to me that the onus should now be on the government to report not only on its prospects for reducing the deficit, but also on the extent to which they have been realized.

Finally, in that same Chapter, a section deals with, "the need to scrutinize expenditures in the context of outcomes". The public statements for both Crown corporations and departments and agencies have been consistent in encouraging public sector organizations to focus more on measuring and reporting results.

In the current atmosphere that critically examines what is being accomplished by government programs and activities -- we see a new emphasis on results. The famous Liberal Red Book called for a renewed emphasis on evaluation, innovation and finding best practices.

If we want a country that works, we have to measure whether specific government programs actually deliver results over time. Whether it is in health care or regional development, we think it is important to ensure the long-term outcomes and consequences of our policies and programs.





## EXAMPLES OF RESULTS-BASED REPORTING

Results Observation Used to Conclude On:			
	Economy and Efficiency	Achievement of Intermediate Objectives	Achievement of Overall Objectives
Program Activities	<p>• SAR (costs of "600" class vessels in rescue exceed benefits)</p> <p>1992 Paragraph 8.53</p> <p>8.53 The 1989 National Search and Rescue Secretariat offshore study noted that the Type 600 vessels had not been critical to saving any lives during the period 1983 to 1987. A 1992 Department of Transport program evaluation of search and rescue indicated that the costs of providing these vessels exceeded the benefit provided.</p>	<p>• CIDA (potential for enduring benefits through self-sustainability)</p> <p>1993 Paragraphs 12.87 and 12.88</p> <p>12.87 Overall, our analysis shows that the potential for enduring benefits is less than was anticipated when the projects were first approved.</p> <p>12.88 Specifically, among the 18 projects we examined:</p> <ul style="list-style-type: none"> <li>• The technical and managerial capability in the recipient country after CIDA's withdrawal ranged from satisfactory in some cases to weak and unsatisfactory in most others, depending on the country, the sector and the type of project.</li> <li>• The commitment of the "inheritor" was generally satisfactory in the initial stages. It grew weaker over time in many cases, and was absent in some after CIDA's withdrawal from the project.</li> </ul>	<p>• NCARP (capacity and dependency remains high)</p> <p>1993 Paragraphs 15.84, 15.85, 15.86, 15.93</p> <p>15.84 The Department expected that, of the 19,000 anticipated program participants, 33 percent of the fishermen (3000) and 50 percent of the plant workers (5000) would leave the fishery.</p> <p>Lower than expected reduction in number of individuals dependent on the fishery</p> <p>15.85 As of August 1993, of the 26,338 actual program participants, only 20 percent of the fishermen (1933) and 30 percent of the plant workers (5010) were enrolled in components leading to a possible exit from the fishery.</p>



		<ul style="list-style-type: none"> <li>The involvement of the target group of people in project design and evaluation varied considerably - from high in a few cases to low in most.</li> <li>Although the first three indicators are important in themselves, the fourth - the availability of sustaining resources to operate and maintain the project over its life cycle after CIDA withdraws - is critical in determining whether the project will be self-sustainable. It merits serious and ongoing attention. At the time of our audit, a few projects were clearly sustainable; the majority will require continued host government or donor support; and some are unlikely to be financially self-sustainable.</li> </ul>	<p><b>15.86</b> Conversely, 74 percent of Northern Cod Adjustment and Recovery Program participants (19,395 participants) have not enrolled in components leading to a possible exit from the fishery.</p> <p><b>15.93</b> Although licences are being retired, it appears that there will be approximately 5300 licences available to fish Northern cod at the end of the moratorium, as opposed to the departmental target of 3200.</p>
Systems and Controls	<ul style="list-style-type: none"> <li><b>NCARP (FMC failures lead to additional resource requirements)</b></li> </ul> <p>1993 Paragraph 15.76</p> <p>15.76 Following implementation of the program, cheques started coming back, either voluntarily returned by recipients or marked undeliverable. It took several months before the Department began to analyze the reasons for these returns. By December 1992, over 4600 cheques had been returned. In addition, concerns were raised about the adequacy of the income support budget. When it was realized</p>	<ul style="list-style-type: none"> <li><b>Operation of Program Evaluation (program improvements)</b></li> </ul> <p>1993 Paragraphs 9.69, 9.72</p> <p>9.69 We examined 168 studies where uses had been identified in the January 1992 survey by the Comptroller General, or by departments during our examination.</p> <p>9.72 Program evaluations for which we found documented confirmation of use contributed most frequently to improved understanding of the programs and to</p>	<ul style="list-style-type: none"> <li><b>Payments (payments exceeded PY reductions)</b></li> </ul> <p>1992 Paragraph 7.32</p> <p>7.32 Exhibit 7.5 shows that for work unit "A", the number of payments in lieu represented some 27 percent of the reduction of the person-year allocation over a five-year period. In unit "B" (see Exhibit 7.6) the number of payments have — with the exception of 1988 — consistently exceeded the reduction in person-years. In 1990-91 and 1991-92, unit "B" had its person-year</p>





	<p>that additional funds would be required before the end of the fiscal year, management had difficulty in projecting financial requirements:</p> <ul style="list-style-type: none"> <li>• <b>Seniors (deficiencies in management of overpayment)</b></li> </ul> <p>1993 Paragraph 18.69, 18.70</p> <p>18.69 The <i>Old Age Security Act</i> and <i>Canada Pension Plan (Act)</i> both state that the receipt of a benefit to which one is not entitled represents a debt to the Crown and must be repaid. Debts arising from pension benefit overpayments are occurring in the range of \$120 million to \$220 million each year. The total administrative cost of delivering the pension programs is \$260 million. Although these overpayments represent only 0.5 percent of total payments, they effectively increase the administrative cost of program delivery by more than 50 percent.</p> <p>18.70 We reviewed the systems that existed and the practices that were being followed in the Department with respect to pension benefit overpayments. We concluded that the detection, recording and recovery of overpayments were not being managed in a cost-effective manner. We found that most overpayments could be related to deficiencies in two key program activities - <i>Canada Pension Plan disability reassessment</i> and <i>Guaranteed Income Supplement renewal</i>. The systems and procedures in place for the recording, control and collection of overpayments fell far short of meeting minimum standards for such accounts.</p>	<p>program modifications (see Exhibit 9.11). In 20 percent of the evaluations we examined, departmental changes made to improve operational delivery, often in ways not visible to program clients. To confirm the use of the evaluation, we sought evidence that the program evaluation had clearly recommended or identified program changes, that it was a factor considered by management in changing the program and that the changes had actually occurred.</p> <ul style="list-style-type: none"> <li>• <b>Payments (Effects of management on payments in lieu)</b></li> </ul> <p>1992 Exhibit 7.7</p> <p>Management of Work Force Adjustments: Comparison of Characteristics of and Effects on Payments in Lieu</p> <p>Where well-managed</p> <ul style="list-style-type: none"> <li>• An understanding of the purpose and context of the work force reduction;</li> <li>• Leadership starting at the top that provided direction and fostered commitment through participation and communication;</li> <li>• Mobilization of the organization to "rethink" the work and program delivery and to tackle the challenge faced;</li> <li>• A management framework that included solid plans, the formation of ad hoc committees and support units for a co-ordinated and integrated effort;</li> </ul>	<p>allocation augmented to help it cope with an increase in activity levels. While there might be valid reasons that the number of payments exceeded person-year reductions in any given year — for example the elimination of a few clerical positions and the creation of a large number of professional jobs — we found that such imbalances were often one indicator of problems in the administration of the Policy.</p>
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	<p>deficiencies in two key program activities -- Canada Pension Plan disability reassessment and Guaranteed Income Supplement renewal. The systems and procedures in place for the recording, control and collection of overpayments fell far short of meeting minimum standards for such accounts.</p>	<ul style="list-style-type: none"> <li>• <i>Measurable and definitive objectives; Control of the exercise through periodic reporting, concurrent evaluation, and other mechanisms to ensure that objectives were met.</i></li> </ul> <p><b>Effects on payments in lieu</b></p> <ul style="list-style-type: none"> <li>• Considered one option among others.</li> <li>• Usually well founded and in keeping with the intent and letter of the Policy.</li> <li>• Usually well founded and in keeping with the intent and letter of the Policy.</li> </ul> <p><b>Where poorly managed</b></p> <ul style="list-style-type: none"> <li>• Senior management of the organization failed to provide leadership, direction and support;</li> <li>• Planning was inadequate;</li> <li>• No appropriate management framework was established; the opportunity to learn from experience was lost;</li> <li>• Work force reductions were not used as an opportunity to "rethink" the work;</li> <li>• Management relied on employees requesting payment in lieu to achieve the work force reduction.</li> </ul>	
		<p><b>Effects on payments in lieu</b></p> <ul style="list-style-type: none"> <li>• Liberal interpretation of the Policy.</li> <li>• THE only option.</li> <li>• Usually without foundation or called into question.</li> </ul>	

Examples selected from the 1993 and 1992 reports of the Auditor General

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